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E/C.10/AC.3/1992/L.1
13 February 1992

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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Tenth session
5-13 March 1992
Item 2 of the provisional agenda*

ADOPTION OF THE AGENDA AND OTHER ORGANIZATIONAL MATTERS

Status of documentation for the session

Note by the Secretariat

By Economic and Social Council resolutions 1979/1 and 1979/69 on the control and limitation of documentation and 1988/77 on the revitalization of the Council, the Council reiterated that the Secretariat should circulate the relevant documentation in all the working languages six weeks before the opening of the sessions of the Council and its subsidiary organs, and invited the Secretariat to take steps to ensure effective compliance with rule 13, paragraph 4, of the rules of procedure of the Council. By resolution 1979/69, the Council requested the Secretariat to inform the Council and its subsidiary bodies, in the relevant annotated agenda, which documents had not been issued in accordance with the six-weeks rule, with a full explanation of the reasons that prevented their circulation.

In view of the schedule of the tenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (5-13 March 1992), the documentation for the session should have been submitted to the Division of Economic and Social Council Affairs and Secretariat Services by 19 December 1991 and circulated by 26 January 1992. The documents not circulated by that date are listed in the annex below.

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* E/C.10/AC.3/1992/1.

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ANNEX

Status of documentation as at 12 February 1992

Agenda item	Document and symbol	Date of submission to the Division of Economic and Social Council Affairs and Secretariat Services	Date of submission to the Department of Conference Services	Actual or projected date of issue*
2	Adoption of the agenda and other organizational matters			
	Provisional agenda (E/C.10/AC.3/1992/1)			Issued
3	Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting			
	Report of the Secretary-General on the review of important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/2)	24 December 1991	23 January 1992	24 February 1992
	Report of the Secretary-General on the environmental disclosures: international survey of corporate reporting practices (E/C.10/AC.3/1992/3)	13 January 1992	31 January 1992	26 February 1992
	Report of the Secretary-General on the review of important current developments at the national level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/4)	13 January 1992	24 January 1992	24 February 1992

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* The date of issue can be indicated only for those documents that have reached the Department of Conference Services.

Agenda item	Document and symbol	Date of submission to the Division of Economic and Social Council Affairs and Secretariat Services	Date of submission to the Department of Conference Services	Actual or projected date of issue*
	Report of the Secretary-General on the identification of accounting problems arising during privatization and their solution (E/C.10/AC.3/1992/5)	22 January 1992	4 February 1992	26 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in Czechoslovakia (E/C.10/AC.3/1992/5/Add.1)	13 January 1992	22 January 1992	24 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in France (E/C.10/AC.3/1992/5/Add.2)	24 December 1991	16 January 1992	24 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in Germany (E/C.10/AC.3/1992/5/Add.3)	17 January 1992	4 February 1992	27 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in Hungary (E/C.10/AC.3/1992/5/Add.4)	17 January 1992	4 February 1992	27 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in Mexico (E/C.10/AC.3/1992/5/Add.5)	9 January 1992	6 February 1992	27 February 1992
	Report of the Secretary-General on the accounting problems arising during privatization in Poland (E/C.10/AC.3/1992/5/Add.6)	24 December 1991	10 January 1992	14 February 1992

Agenda item	Document and symbol	Date of submission to the Division of Economic and Social Council Affairs and Secretariat Services	Date of submission to the Department of Conference Services	Actual or projected date of issue*
	Report of the Secretary-General on the accounting problems arising during privatization in the United Kingdom of Great Britain and Northern Ireland (E/C.10/AC.3/1992/Add.7)	24 December 1991	16 January 1992	24 February 1992
	Report of the Secretary-General on the International Conference on Accountancy Development in Francophone Africa (E/C.10/AC.3/1992/6)	29 January 1992	6 February 1992	27 February 1992
	Report of the Secretary-General on the review of accountancy education and training programmes in Central and Eastern Europe (E/C.10/AC.3/1992/7)	6 February 1992	-	-

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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Tenth session
5-13 March 1992
Item 2 of the provisional agenda*

ADOPTION OF THE AGENDA AND OTHER ORGANIZATIONAL MATTERS

Organization of the work of the session

Note by the Secretariat

1. The draft organization of work for the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting at its tenth session, annexed to the present note, has been prepared pursuant to relevant decisions of the General Assembly and the Economic and Social Council in order to facilitate the consideration of the agenda items within the time and services allocated to the Working Group.

2. The first meeting of the Working Group will be convened on Thursday, 5 March 1992, at 10 a.m. Facilities will be available for two formal meetings each day. The meeting hours (Monday to Friday, inclusive) will normally be from 10 a.m. to 1 p.m. and from 3 p.m. to 6 p.m.

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* E/C.10/AC.3/1992/1.

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Annex

DRAFT ORGANIZATION OF WORK

Thursday, 5 March		
Morning		Opening of the session
	Item 1	Election of officers
	Item 2	Adoption of the agenda and other organizational matters (E/C.10/AC.3/L.1 and L.2)
	Item 3 (a)	Review of important current developments at the global level (E/C.10/AC.3/1992/2)
Afternoon	Item 3 (a)	Review of important current developments at the global level (E/C.10/AC.3/1992/2)
	Item 3 (a)	Review of important current developments at the national level (E/C.10/AC.3/1992/4)
Friday, 6 March		
Morning	Item 3 (a)	Review of environmental accounting at the global level (E/C.10/AC.3/1992/3)
Afternoon	Item 3 (a)	Review of environmental accounting at the global level (E/C.10/AC.3/1992/3)
		Informal consultations (Rapporteur and friends)
Monday, 9 March		
Morning	Item 3 (b)	Accounting problems arising during privatization in France (E/C.10/AC.3/1992/5/Add.2)
	Item 3 (b)	Accounting problems arising during privatization in the United Kingdom of Great Britain and Northern Ireland (E/C.10/AC.3/1992/5/Add.7)

	Item 3 (b)	Accounting problems arising during privatization in Mexico (E/C.10/AC.3/1992/5/Add.5)
Afternoon	Item 3 (b)	Accounting problems arising during privatization in Germany (E/C.10/AC.3/1992/5/Add.3)
	Item 3 (b)	Accounting problems arising during privatization in Hungary (E/C.10/AC.3/1992/5/Add.4)
	Item 3 (b)	Accounting problems arising during privatization in Czechoslovakia (E/C.10/AC.3/1992/5/Add.1)
		Informal consultations (Rapporteur and friends)
Tuesday, 10 March		
Morning	Item 3 (b)	Accounting problems arising during privatization in Poland (E/C.10/AC.3/1992/5/Add.6)
Afternoon	Item 3 (b)	Identification of accounting problems arising during privatization and their solution (E/C.10/AC.3/1992/5)
		Informal consultations (Rapporteur and friends)
Wednesday, 11 March		
Morning	Item 3 (c)	Education and training in developing countries (E/C.10/AC.3/1992/6)
Afternoon	Item 3 (c)	Education and training in Central and Eastern Europe (E/C.10/AC.3/1992/7)
	Item 4	Provisional agenda for the eleventh session (E/C.10/AC.3/1992/L.4)
		Informal consultations (Rapporteur and friends)

<u>Thursday, 12 March</u>		
Morning		Translation of the report
Afternoon		Same
<u>Friday, 13 March</u>		
Morning	Item 5	Adoption of the report (E/C.10/AC.3/1992/L.3 and addenda)
Afternoon	Item 5	Adoption of the report (E/C.10/AC.3/1992/L.3 and addenda)

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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Tenth session
5-13 March 1992
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Rapporteur: L. Nelson Carvalho (Brazil)

ORGANIZATION OF THE SESSION

A. Opening and duration of the session

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its tenth session at United Nations Headquarters from 5 to 13 March 1992. The Group held ____ meetings (1st to ___ meeting).

2. The session was opened by the Chairman of the ninth session, Ms. Marta Aguirre (Mexico). The Chairman welcomed the new member States and observers and reviewed the results of the ninth session. She stressed the fact that the Group of Experts was a working group, in which all members had to contribute if the Group were to have an impact on corporate accounting and reporting.

3. At the 1st meeting, on 5 March, the Director of Legal Advisory Services of the Department of Economic and Social Development made a statement on behalf of Mr. Ji Chaozhu, Under-Secretary-General. He said that the Group's endeavours towards the formulation of an internationally comparable system of standardized corporate accounting and reporting deserved the full support of the international community. Recent international developments had reinforced

the case for the harmonization of corporate standards and interest in the Group's work was at an all time high for several reasons. With the increased globalization of capital markets, the absence of sufficient information disclosure and adequate accounting standards had led to financial instability, as evidenced by the collapse of several transnational corporations, banks and insurance companies. The public was keenly aware of the need for a better regulatory environment, even in the most developed market economies. Furthermore, a crucial first step in the transition from planned to market economies was the development of an accounting system capable of measuring financial performance at the enterprise level. Lastly, developing countries were under continuous pressure from creditors and donors to increase their accountability, but they lacked the basic infrastructure (i.e., accountants and accounting standards) to do so.

4. The head of the Accounting and Information Branch of the Transnational Corporations and Management Division expressed satisfaction that the Group had seized upon important issues so that they could be addressed in a world forum. The global review of current developments in accounting ensured that developing countries and countries in transition could reflect on developments as they happened rather than after the fact. He also expressed satisfaction that the Group was at the forefront of issues such as environmental accounting and privatization. He urged the Group to transmit its conclusions on environmental accounting to the United Nations Conference on Environment and Development in order to strengthen Agenda 21.

B. Membership and attendance 1/

5. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. One member from Asian States and two members from Latin American and Caribbean States have still to be elected.

6. The following States members of the Group were represented at the tenth session: Brazil, Bulgaria, Chile, China, Costa Rica, Cyprus, France, Gabon, Germany, Hungary, India, Italy, Jordan, Malawi, Mexico, Morocco, Netherlands, Nigeria, Pakistan, Russian Federation, Spain, Swaziland, Sweden, Switzerland, Thailand, Turkey and the United Kingdom of Great Britain and Northern Ireland.

7. The following States Members of the United Nations were represented by observers: Canada, Czechoslovakia, Poland, Romania and the United States of America.

8. The World Bank and International Monetary Fund were represented.

9. The Commission of the European Communities and the Organisation for Economic Cooperation and Development were represented by observers.

10. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce
International Confederation of Free Trade Unions

Roster: Arab Society of Certified Accountants
International Assets Valuation Standards Committee

C. Election of officers

11. At its 1st meeting, on 5 March 1992, the Group elected the following officers:

Chairman: István Friedrich (Hungary)

Vice-Chairmen: Akhilesh Chandra Tiwari (India)
Abdelaziz Talbi (Morocco)
Peter Sandén (Sweden)

Rapporteur: L. Nelson Carvalho (Brazil)

D. Agenda and organization of work

12. At the 1st meeting, on 5 March, the Group adopted the following provisional agenda, as contained in document E/C.10/AC.3/1992/1:

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

4. Provisional agenda for the eleventh session of the Group.

5. Adoption of the report of the Group on its tenth session.

At the same meeting, the Group approved its organization of work as set out in document E/C.10/AC.3/1992/L.2.

ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

13. At its ___ meeting, on ___ March 1992, the Group adopted the draft report on its tenth session (E/C.10/AC.3/1992/L.3 and Add.1-___), as revised and amended during the discussion.

Notes

1/ With approval of the Group, the following organizations attended the session: International Accounting Standards Committee, International Federation of Accountants and Fédération internationale des experts-comptables francophones.

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Intergovernmental Working Group of
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of Accounting and Reporting
Tenth session
5-13 March 1992
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Addendum

Rapporteur: L. Nelson CARVALHO (Brazil)

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global level in the field of accounting and reporting by transnational corporations

1. At its 1st and 2nd meetings, on 5 March 1992, the Group discussed the report of the Secretary-General on important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/2). It found that the report was comprehensive in scope and contained useful information. Regarding the continuing negotiations on the General Agreement on Trade in Services (GATS) several experts said that it would be desirable, given the governmental nature of the Group and the fact that it was an expert group on accounting, that it formulate its views on the content of the protocol on professional services.

2. In the context of some recent failures of transnational corporations, in particular banks, there were two areas of concern: (a) the deficiencies in information disclosure regarding bank structure and related party transactions; and (b) responsibilities, appointment and rotation of auditors.

There was support for the proposal that the Transnational Corporations and Management Division conduct a review of the adequacy of accounting and auditing standards for financial institutions. A discussion by the Group and the formulation of conclusions might contribute to improving public confidence in those institutions.

3. The Group was informed that the standard-setting bodies in the countries of the proposed North American Free Trade Agreement were contemplating a joint study to identify the differences in the accounting standards and practices of the three countries and the extent to which those differences could be eliminated. In South America, Argentina, Brazil, Paraguay and Uruguay had formed a common market "MERCOSUR" and preliminary steps had been taken to harmonize accounting standards.

4. It was mentioned that the existence of the Preferential Trade Area in Eastern and Central Africa had highlighted the need to harmonize accounting standards. The Eastern, Central and Southern Africa Federation of Accountants (ECSAFA), a regional accounting association, was turning its attention to that matter. In that context the regional association could benefit greatly from increased links with the Group and it would be useful to see what links could be established. The experts from Brazil, Jordan, Morocco and Thailand also mentioned their regional associations, namely the Interamerican Accounting Association (IAA), the Arab Society of Certified Accountants (ASCA), the Maghreb Accounting Committee, the ASEAN Federation of Accountants and the South Asia Federation of Accountants. They described their activities, particularly in the area of harmonization of accounting standards. For example, ASCA was planning a joint conference with the Division in November 1992 to discuss standard-setting in the Arab world. The Group was further informed that during the recent annual conference of IAA, the Chairperson of the ninth session of the Group had discussed the possibility of having IAA participate in the Group's sessions.

5. The expert from Switzerland expressed the opinion that the report could be improved by including the reason why transnational corporations in his country were using international accounting standards. Since the national accounting rules were confined to the essentials, the international accounting standards offered additional guidance in certain areas. In his opinion, it was important to note that liberal accounting environments could favour the development and use of international accounting standards.

6. A number of countries in transition said that the report contained a wealth of information and that it allowed authorities in their countries to more easily follow developments in the field of international accounting. The section of the report on Central and Eastern Europe was highly instructive. The expert from the Russian Federation informed the Group that his country had adopted a revised chart of accounts in December 1991 that took into consideration some international accounting standards. That work had relied on an international task force organized by the former United Nations Centre on Transnational Corporations and the former Ministry of Finance. One expert called for a more detailed and technical analysis of the actual changes in the

Central and Eastern Europe in the 1993 global review. It would be useful to know about the direction of the change in those countries. In that regard, one expert said that it would be helpful to analyse the comparability of the new standards and what remained to be done. Another expert expressed reservations in that connection and stated that such reviews of national developments should not be critical. There was general agreement in the Group that reviews should be factual and constructive. An expert from a developing country said that if the Group noted that an accounting system did not facilitate the development of a country, its constructive criticism could support efforts for improvement.

7. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) said that wider participation of developing countries in international standard-setting was needed since it was in their interest to solve accounting problems in an international context that respected their sovereignty. In that regard, the United Nations had no boundaries or restrictions on membership. Progress was occurring in francophone countries and their views should be taken into account by international organizations. Furthermore, those countries were of the opinion that the review of developments in other countries was useful.

8. Regarding the discussion of recent developments in accounting for intangible assets, a number of experts suggested modifications to make the text more precise. In particular, it would be helpful to distinguish among the accounting treatment for goodwill arising from business combinations and for other types of intangible assets. It was agreed to amend the text.

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Intergovernmental Working Group of
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Tenth session
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ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Addendum

Rapporteur: L. Nelson Carvalho (Brazil)

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national level in the field of accounting and reporting by transnational corporations

1. At its 2nd and 3rd meetings, on 5 and 6 March 1992, the Group discussed the report of the Secretary-General on important current developments at the national level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/4). The representative of the Division informed the Group that replies to the questionnaire had been received from 48 countries. A number of experts commented on the non-homogeneity of their replies. They suggested that certain guidance be given to those completing the questionnaires. In particular, it might be useful to specify for the Governments which agency or body should fill in the questionnaire.

2. The expert from China announced that, at the end of 1991, the Ministry of Finance had issued for comment its first accounting standard, which contained

general accounting principles or a conceptual framework. Additional standards would be issued to address specific issues. This represents a departure from the traditional method of standard-setting, where standards were formulated for different industrial sectors and different forms of ownership. In the future, all enterprises would use uniform accounting policies. However, each industrial sector might design its own detailed accounting system as long as it was consistent with the uniform accounting standards.

3. The expert from Mexico stated that, as part of the North American Free Trade Agreement, the three countries in question were considering the adoption of common accounting standards and common rules for the licensing of accountants. She also noted that, while the Instituto Mexicano de Contadores Públicos provided guidance on corporate accounting, it usually did so after examining the pronouncements of the main international accounting bodies.

4. Since the reply of his country had not been included in the report, the expert from Morocco explained that 1991 had been marked by three major events: two draft laws on accounting and auditing, which were based on the European Community (EC) directives, and the fact that the National Council of Accounting had begun its work. In addition, the Government had selected those entitled to conduct audits of the enterprises to be privatized.

5. The expert from Chile said that his country had developed substantial expertise in accounting for inflation. He added that several years ago, a system of monetary restatement (or monetary correction) was introduced. The accounting profession and the regulators of his country were currently dealing with the accounting treatment of the differences that might result from updating liabilities for exchange rate fluctuations as compared to restating fixed assets with domestic inflation rates. He suggested that, since the Group was concerned with harmonization, the issue of inflation could not be ignored even if it was low. In the long term, the cumulative effects of inflation would distort the financial statements. Therefore, the Group should consider more research in that area.

6. The expert from Bulgaria also mentioned the need for guidance in accounting for inflation and in accounting for joint ventures. He announced that an Institute of Accountants had been established and that a national commission had been set up to examine candidates for the profession and 54 persons had been given the title of "Chartered Accountant" or "Certified Public Accountant". In Bulgaria, the control of the activities of auditors was very important because joint stock companies and banks must be audited annually.

7. The expert from the United Kingdom of Great Britain and Northern Ireland informed the Group that the Accounting Standards Board had created an Urgent Issues Task Force. So far, it had dealt with the treatment of goodwill from the resale of businesses, allocating the financing cost of deep discount bonds, and disclosure in the profit and loss account from restructuring and reorganization costs. The expert from Gabon stated that a National Accounting Council was established in 1992. It could benefit from the dissemination of

reports of the Group. Regarding the Group's work on the environment, he had transmitted the report to the Minister of Environment.

8. At its 3rd and 4th meetings, on 6 March 1992, the Group considered the report of the Secretary-General entitled "Environmental disclosures: international survey of corporate reporting practices" (E/C.10/AC.3/1992/3). In introducing the report, the representative of the Division noted that a vast majority of the transnational corporations studied - 191 out of 222 - reported at least some information regarding their environmental impacts. Although much of that information was qualitative, descriptive and inconsistent across industries, it did demonstrate an awareness of environmental issues. It was obvious that there were leaders and laggers in this field; some companies were reporting useful information while others were reluctant to do so. One of the main problems highlighted by the survey was that environmental performance was not related to expenditures or to environmental targets.

9. The observer for the International Confederation of Free Trade Unions (ICFTU) found the survey quite useful, particularly because concrete examples of corporate practice were cited in the report. She assumed that the survey was based on parent company reports and suggested that in the next survey individual company reports also be examined as they were likely to disclose more relevant information on emissions. Another expert said that it would be desirable to know how the disclosure system operated between parent and subsidiary.

10. The Group found the report well prepared, allowing valid conclusions to be drawn. It showed that, despite growing awareness, progress was slow and the Group must find a way to finalize its conclusions. The dissemination of the Group's conclusions might improve disclosure. Another expert stated that the report would be extremely useful to her Government by showing the scope of the problems.

11. One observer expressed appreciation to the Division for its work in that field. He said that in his 10 years with the Group he had more requests for its environmental reports than for any other report. The issues were complex and needed continuous monitoring. Therefore, he considered it would be more useful for the Group to continue to monitor developments than to issue recommendations at this time. In future surveys, it might be desirable to have a higher number of transnational corporations per country. Another expert requested that more transnational corporations from developing countries be included.

12. One expert spoke about accounting for the environment at the micro- and macroeconomic levels. He outlined the tasks of the accountant, including the identification of an activity, its measurement and its communication or disclosure. Within the context of sustainable development, it was necessary to include the full cost of producing a product, which would include all the unrecorded environmental costs. Another expert said he had difficulty with this because accounting was at the end of the line. If the Government did not

put a price on environmental resources, how could accountants put them on the books? He referred to paragraph 35 of the report (E/C.10/AC.3/1992/3), in which an enterprise described the difficulties it had in quantifying its contingent liabilities. The expert was of the opinion that if the enterprise did manage to quantify its liabilities and declared them, the company would not survive. Legal problems were the main reasons why there was not more disclosure, but there were also measurement problems. He stated that, in the future, the Group should consider the appropriateness of special purpose reports for disclosing environmental information. It was possible that measurement problems would disappear if the Group stopped trying to integrate environmental issues into financial accounting. The expert from Germany added that it was not possible to solve environmental problems only with new accounting rules. For example, owing to the prudence principle, environmental liabilities had to be recognized in the opening balance sheets of former East German enterprises. Those contingent liabilities were in some cases very important. In the end, the Government might be forced to assume directly some of the contingent liabilities. Therefore, one could see the problem better with disclosure, but that did not solve it.

13. Several experts from developing countries did not agree with the suggestion that the Group restrict itself to a monitoring role. The issuing of recommendations would be helpful to developing countries that did not have the expertise to formulate such recommendations. The major players were not doing very much; Governments did not have the resources to deal with the issue; standard-setting bodies were not addressing it; and industry was not keen to pursue it. Therefore, the catalytic role of the Group was especially important. Another expert from a developing country stated that, while he recognized that accounting was not a policy-making instrument, recommendations by the Group would go a long way in giving the necessary guidance to improve disclosure. Another expert stated that requiring such disclosures would have more impact on the behaviour of enterprises than environmental legislation itself. He referred to the fact that the publication of toxic emissions data had a more powerful effect on reducing pollution than 20 years of regulation, and so, disclosure was, in the opinion of one national regulator, "one of the most important tools we have to reduce toxic emissions".

14. One expert clarified the distinction between environmental accounting, auditing and reporting:

(a) Environmental accounting. A new basis and system of recognition and measurement of costs, including externalities;

(b) Environmental auditing. Enterprise techniques for environmental management;

(c) Environmental reporting. Disclosure of environmental activities.

He was of the opinion that the Group's conclusions were adequate in terms of environmental reporting and that such reporting should be encouraged but not required. Furthermore, the manner of reporting was best left to the enterprise since it had to be determined in the light of its circumstances.

15. In concluding the discussion, a number of experts suggested that the Group transmit its "conclusions (on environmental reporting) for consideration by Governments and other interested parties" to the Secretary-General of the United Nations Conference on Environment and Development, as set out in document E/C.10/1991/12 and Corr.1. It was also recommended that when the Group's booklet, entitled "Conclusions on accounting and reporting for transnational corporations" was revised, environmental reporting be included.

16. Two experts outlined the future work that should be undertaken by the Group and discussed at its future meetings:

(a) A survey of corporate practices, using the conclusions as a reference point; include more enterprises per country; include individual accounts; compare group with individual reports;

(b) Prepare a special report of best practices.

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ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Addendum

Rapporteur: L. Nelson Carvalho (Brazil)

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national level in the field of accounting and reporting by transnational corporations

1. The Secretary-General of the International Accounting Standards Committee (IASC) explained the role of that organization, which was founded in 1973, with the objective of facilitating the harmonization of accounting requirements for business enterprises. It sought to achieve that objective through the development and publication of international accounting standards. IASC has 105 member organizations and a Board comprising representatives from 12 countries drawn from the national accounting bodies and a consultative group which broadly represents users and preparers of financial statements. To date 31 standards have been issued.

2. He described progress on its comparability project (ED 32), which aims to reduce the options in its current standards. IASC has issued exposure drafts to revise its standards on research and development costs, inventories and the

capitalization of borrowing costs. The Board has approved for issue exposure drafts on revenue recognition, construction contracts, foreign exchange rates, business combinations and property, plant and equipment, which contains a limited reference to environmental expenditure. The Board intends to approve standards on cash flow statements in 1992 and on financial instruments in 1993. The Board's priorities include the revision of the existing standards on taxes and segmented information and the development of a standard on intangible assets. Lastly, the Secretary-General reported on the IASC project on financial reporting needed in developing and newly industrialized countries. That project was delayed but IASC now intends to send a questionnaire to appropriate bodies and to publish a report based on their responses. The questionnaire will help determine what IASC can do and how the comparability project will affect those countries. IASC realizes that one of the main needs of those countries was education and training and it is not an expert in that field. Therefore, it would support the efforts of the International Federation of Accountants (IFAC) and the Intergovernmental Working Group in that area.

3. In response to his statement, a number of experts asked about the IASC relationship with the International Organization of Securities Commissions (IOSCO). The Secretary-General replied that IOSCO sought the development of a set of mutually accepted standards for securities listings and that IASC hoped to provide those standards. He expected that a final decision on that matter would be taken in 1993. It was asked whether IASC intended to develop two sets of standards, one for listed companies and another for non-listed companies. The Secretary-General replied that the intention was to develop one set of common standards but, as always, some issues might be limited to particular types of enterprises. On the question of the Steering Committee on the Financial Needs of Developing Countries and Newly Industrialized Countries, an observer, in his capacity as Chairman of that Committee, expressed his dismay at the delay in its work, which resulted from three sources: (a) the lack of agreement between the Board and the Committee on its mandate, (b) the difficulty in agreeing on the real reasons for the lack of participation of developing countries in standard-setting and (c) the other priorities of IASC. He stated that he was not satisfied with the situation and that the Committee should either meet or be dissolved. In reply, the Secretary-General apologized for the delay and said the project should have the priority it deserves.

4. Although in formal terms the scope of IASC was not to enforce accounting standards, its cooperation with IOSCO and its assistance to developing countries and to countries in transition might put IASC in a de facto mandatory position. In view of that development, several experts asked whether it was acceptable that a private sector organization should play such an important role without having a political mandate. It was noted that IASC, together with IFAC, influenced most efforts for harmonization in that area and, therefore, both should be commended for their activities. But to avoid any misunderstanding in the report, it should be made clear that IASC and IFAC are private sector organizations that do not have the mandate to make their standards mandatory.

5. Some experts drew attention to the fact that the present action of IASC to exclude options was moving that body in the direction of putting more emphasis on investors rather than on the protection of creditors. That could easily lead to overemphasizing the short term and to overlooking long-term problems. Consequently, the elimination of options could be harmful for the economy of a country. As concerns, for example, Germany, it would then be forced to give up its concept of accounting and its interpretation of the prudence principle. So far, such options were permitted by the Economic Community, the Organisation for Economic Cooperation and Development and the United Nations.

6. Other experts raised the possibility of a conflict of interest between the professional aims of the people effectively involved in IASC and IFAC operations and the public interest. About 75 per cent of the audits of listed companies were done by the Big Six accounting firms. Several experts, however, noted that IASC was not exclusively composed of members of audit firms, that it looked to the interest of all countries and that both developed and developing countries used international accounting standards as models or appropriate benchmarks. Some experts expressed the opinion that the task of standard-setting should not be left entirely to private sector organizations of the auditing profession. In particular, where two or more technical methods were possible, the elimination of options must be decided by Governments or intergovernmental organizations under political control. In concluding the discussion, it was proposed that the Group should determine the extent to which the Group could endorse international standards without harming various national interests.

7. In concluding the discussion on global and national developments, the expert from the Russian Federation said that, although her country had recently revised its chart of accounts to comply with some international standards, there would be great difficulty in implementing it. She wondered whether the new financial statements that would be produced using accrual accounting would really reflect a true and fair view of the enterprise's situation. At the present time, enterprises did not have any assurance that they could ultimately collect their accounts receivable because of the economic chaos, the breakdown of the financial system, the severing of previous business relationships and the lack of experience of operating in a market economy. Those factors were dramatically increasing late payments or non-payments so that 80 per cent of the accounts might be in default. The problem of bad debts could be solved by making provisions for such bad debts but that practice had not yet been incorporated into the new chart of accounts. In addition, she wondered whether the tax authorities would accept such a practice. She concluded by saying that in applying international standards to countries in transition, the particular circumstances of the countries should be considered so that international economic relations were not damaged.

8. The expert from Czechoslovakia stated that, in the case of accrual accounting, there appeared to be a conflict between financial accounting requirements and tax law in his country. Tax law did not allow provisions for

bad debts. If a large per cent of accounts receivable were not collectible, there was a danger that enterprises would have to pay taxes on such uncollectible revenues. Fortunately, the tax authorities worked out that problem with the enterprises and did not collect taxes on that basis. In 1993, it would be possible to make provisions for bad debts. The expert from Poland stated that it was impossible to adopt international standards overnight. It must be done gradually since those standards were developed for stable economic and legal environments. The expert from Bulgaria agreed that the changes in the accounting system would take five or six years and new accounting legislation should give greater freedom to enterprises in their development of accounting systems. There was a problem in tax accounting in that it changed the accounting system results.

9. One expert from a developed country suggested that if there were difficulties or restrictions in applying international standards, then one solution would be to disclose the additional information in the notes to the financial statements. In referring to the issue of bad debts, the expert from Germany noted that the problem did not arise in planned economies, as accounts receivable were always paid for by the Government or other State organizations. If those receivables were recognized, they should be written down. He agreed that, if such doubtful accounts receivable were considered as assets without any value adjustment, then those financial statements would not be very meaningful. In Hungary, outstanding debts were evaluated at the end of the year and there was a possibility of creating a provision that could be deducted from taxes. However, tax law does not allow all provisions to be deducted in one year.

10. The representative of the European Community described recent activities of the European Accounting Advisory Forum, which was composed of representatives of national accounting standard-setting bodies and of other bodies that represent users and preparers. The main objective of the Forum was to find technical solutions for problems that had not yet been dealt with in the EC accounting directives in order to increase comparability. Current topics being discussed by the Forum include foreign currency translation, government grants and leasing. The subject of foreign currency translation was difficult owing to the link between financial accounting and taxation. While the problems might not be solved on the level of the individual accounts, they might be resolved on the level of the consolidated accounts, where there was no conflict between financial accounting rules and tax law, since taxes were based on the individual accounts. Regarding leasing, there were basically two approaches to the treatment of a lease where the lessee assumes the economic risks of the contract, and the Forum was trying to bring about comparability between those two approaches. The documents would be made available soon.

11. One expert asked what the European Community was doing on environmental accounting. The representative replied that the Commission of EC had published its Fifth Action Programme on the Environment, entitled Towards Sustainability, which contained a list of measures in the area of environmental action. It was considered necessary to include in the Programme some initiatives in the area of financial disclosure, but there were no

concrete proposals yet. It was doubtful whether proposals would be produced before the end of 1992.

12. He also elaborated on the Council Directive of 13 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, which must be implemented by member States before 1 January 1994. That Directive would allow insurance companies to state their investments at the higher market value and to include the unrealized gains into the profit and loss account, provided that the historical cost amounts were shown in the rates. Replying to questions from other experts, he explained that, in most member States of EC, there was a linkage between the accounts prepared for commercial purposes and the accounts prepared for tax purposes and that, at the moment, there were only a few conflicts between the EC accounting directives and the international accounting standards. Should there be a conflict, companies must comply with their national law based upon the EC directive.

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Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Addendum

Rapporteur: L. Nelson Carvalho (Brazil)

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of accounting issues arising during privatization, including individual country case-studies

At its 5th, 6th, 7th, 8th and 9th meetings, on 9, 10 and 11 March 1992, the Group had before it the report of the Secretary-General containing a summary of the accounting and reporting problems identified in the reports of case-studies on seven countries (E/C.10/AC.3/1992/5). The reports contained a description of each Government's objectives for privatization, a discussion of the privatization methods, a description of how the privatization methods were implemented, and a review of the accounting problems that arose during the privatization programme. A distinction was made between privatization in countries that had established market economies with related legal infrastructures and financial institutions and countries that were in transition to a market economy. In general the experts were pleased with the quality of the reports, and minor amendments, proposed by the national experts, were incorporated into the reports.

The expert from the United Kingdom commented that the power generation and distribution industries had also been privatized. The privatization programme was incomplete and would continue with the privatization of the coal industry and railways. Several experts inquired about the difficulty of using current cost information to establish the fair value of the enterprises privatized. The expert from the United Kingdom replied that while the current cost accounting information was useful, it did not represent the equivalent of a valuation performed by an independent appraiser for the purpose of establishing a purchase price. Another question related to the low selling price of some share offers. The expert from the United Kingdom explained that an objective was to promote private ownership of shares, and to encourage participation, shares were issued on attractive terms. Incentives given included payments by instalments, the issue of vouchers for consumption of services, and participation in future bonus issues.

Another expert asked how share offerings of an enterprise were priced after the initial offering - at the book value of the shares, the stock exchange market value, or the economic value - that is, the present value of future cash flows from the operations of the enterprise. There was concern that the original value of the shares owned by the shareholders might be diluted. The expert from the United Kingdom replied that subsequent to issue, shares were quoted at market values and shareholders were entitled to purchase a proportional interest in future offerings so that their interest in an enterprise was not diluted. Those rights were also traded on the stock exchanges.

Another expert inquired whether privatization of an enterprise that had a monopoly in the country affected the cost of goods and services sold by the enterprise. The United Kingdom expert stated that special regulatory bodies were established (i.e., Office of Telecommunications) to ensure that prices charged for goods and services were fair and reasonable.

The expert from France informed the Group that the privatization programme in that country, which had actually begun in 1973, with employees of some financial enterprises being given free shares, was still incomplete. He mentioned two important problems: the determination of the value of the enterprise, and the nature and scope of the audit. On the question of valuation, he noted that the going-concern value of a total enterprise was usually greater than the value of the net assets. Normally, a range of financial values was attributed to an enterprise by investment advisors and appraisers. That range was useful in assisting the Government minister to determine an appropriate global valuation and an issue price. He noted that the global value of the enterprise usually exceeded the aggregate value of its individual shares because each shareholder had limited control and power. He mentioned that different methods were used in selling shares. For example, large blocks of shares were sold to institutional purchasers, who paid higher prices and agreed to retain them for specified periods.

The second issue raised related to the function of auditors, who had a very important role in the process, because the Government required the

preparation of consolidated financial statements in accordance with international standards for each enterprise being privatized. Those financial statements were required to be audited.

One expert asked whether selling prices for enterprises were ever regarded as too low. The expert from France replied that that had occurred, but that the Government's intention was to promote a broad ownership of shares in that country, and that objective had been attained. Two other experts questioned the reasons for the Government's setting aside the proceeds from the privatizations in separate budgetary accounts. The representative from France stated that that was done to provide funds for future investments in the French economy. In replying to another question the French expert pointed out that in some instances the Government retained control of the privatized enterprises.

The expert from Mexico presented the important aspects of the privatization programme in his country which had been motivated by the financial crisis of 1982. At that time, there were 1,550 State-owned enterprises, compared to 200 enterprises in 1992. Most of the remaining State enterprises were in priority sectors of the economy, where private ownership was prohibited by the Constitution.

Although some difficulties had been experienced, important lessons had been learned. First, it was found that it was better to privatize small enterprises before large ones in order to minimize the impact of mistakes and to develop experience in the privatization process. The expert emphasized the importance of having a legal framework to provide complete transparency for the process, centralized control of the privatization programme, and where necessary, the restructuring of enterprises before sale. In Mexico, privatization sales were on a cash basis, because the transactions were regarded as irreversible once concluded. The need for transparency in transactions and communication about the programme was important not only for the citizens of the country but also for the foreign investment community.

One expert inquired about the qualifications of commercial banks as agents for privatization transactions. The expert of Mexico replied that the banks were well qualified to perform appraisals. A question was raised about the difficulties of meeting the requirements of listing on the United States and European stock exchanges. The expert from Mexico responded that that was not a significant problem, because the enterprises involved followed international standards of accounting in the preparation of their financial statements.

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Draft report

Addendum

Rapporteur: L. Nelson Carvalho (Brazil)

III. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of accounting issues arising during privatization, including individual country case-studies

1. The expert from Germany gave a short introduction to the case-study on his country, and pointed out that, prior to unification, the main purpose of privatization in the Federal Republic of Germany had been to reduce the Government's risk of having to provide future financial support to the enterprises privatized. After unification, the objective was to privatize State enterprises in order to transform the planned economy into a market economy with privately owned property.

2. He went on to state that a major problem was the valuation of the enterprises. He felt that the best indicator of the value of an enterprise was the discounted future income from its operations, but that was very difficult to estimate. Enterprises were being appraised on the basis of their "going concern" value in accordance with the Fourth European Community Directive.

3. The expert from ICFTU made a statement about the role of labour in the privatization process for the former German Democratic Republic. Trade unions were represented on the supervisory board of the Trust Agency (Treuhandanstalt) and were involved in privatization strategy and in the sales process for the larger enterprises. Labour productivity in the former German Democratic Republic was approximately one third that in the Federal Republic of Germany, the result of many factors, including the use of obsolescent machinery. When enterprises lost their markets in Central and Eastern Europe, they needed to develop new markets for their goods. Unfortunately, the quality of their products was not up to western standards. That meant that major investments in plant and equipment and management expertise would be required if the enterprises were to operate successfully in a market economy. She was of the opinion that restructuring must, in some cases, precede privatization.

4. The expert from the International Assets Valuation Standards Committee pointed out that the use of similar assets in other cities of the Federal Republic of Germany as a basis for valuing assets in the former German Democratic Republic was risky because in every city the investment climate was different. Another expert inquired about what had been done with social assets such as the sports and recreational facilities that had been owned by enterprises in the former German Democratic Republic. The expert from Germany replied that those assets were either privatized or were turned over to the employees or local authorities.

5. The expert from Hungary described the developments that had occurred since the report on his country had been prepared. The pace of privatization had increased rapidly towards the end of 1991. Approximately 85 per cent of the funds received for privatization transactions were in convertible currencies, which was the main source of foreign capital in that year. In seeking investors, the emphasis had been on obtaining strategic buyers.

6. One important issue was the lack of availability of credit to entrepreneurs. That lack had deterred them from making investments. The Government was working to improve the situation. Interest rates were currently too high. Investment incentives and tax regulations needed to be brought into closer harmony with the new accounting rules. It had been found necessary to restructure enterprises prior to privatizing them. A clear management structure should be established in the enterprises so that they would accept responsibility for their success.

7. With regard to accounting matters, financial statements for 1991 would still be prepared in accordance with the old law of accounting. The new law would become applicable in 1992. Consolidation would not be required before 1995. The new accounting methodology was significantly different from the old accounting rules. The expert noted that the chart of accounts remained, in effect, but that it had been reduced to a broad outline, leaving the exact contents to the company.

8. The observer from Czechoslovakia made a presentation on privatization in his country.

9. Small privatization had been started in the previous year and a programme for large enterprises would begin in the current year. A current valuation of property in all enterprises was not practical because there were so many enterprises. However, those enterprises that were seeking foreign capital would be valued in accordance with international standards. The process should begin in two months.

10. To date, 14,000 enterprises had been sold in public auctions, and 9.3 billion koruny had been received by the Government. There were very few small enterprises left to be privatized. Large enterprises must prepare privatization plans but outsiders might prepare competitive plans for the same enterprises. The Ministry of Privatization had received 5,700 proposals to date.

11. About 4.5 million citizens of the country were expected to participate in the coupon privatization programme. Citizens would buy shares with the coupons, for that was the quickest way to find new owners.

12. The observer from Poland commented on the excellence of the case-study of her country. After initial criticism, the Parliament had voted in favour of the mass privatization scheme, and the Minister of Privatization had been given approval to proceed with transforming State-owned enterprises into joint stock companies. At the time, there were approximately 23,000 enterprises in the private sector, 1,400 joint ventures with foreign investors, and 4,500 partially State-owned joint stock or limited liability companies. During 1991, six large enterprises were privatized through public offerings and their shares quoted on the Warsaw stock exchange, and 18 large firms were sold directly to foreign investors.

13. The development of a transparent and efficient capital market was a key element in the institutional framework required for the success of privatization. The training of board members, managers and capital-market participants was also crucial to the implementation of the programme. The free distribution of coupons and the purchase of shares in privatized enterprises with those coupons would increase the private property owned by Polish citizens. Dividends on shares would add to household incomes, and therefore overall spending would increase.

14. After discussion of the seven case-studies, two experts offered information on privatization in their countries.

15. The expert from Brazil offered a brief presentation on the privatization programme currently in process there. The objectives of the programme were to achieve equilibrium in public finances, to eliminate ownership by the State in activities where it was not required, and to reduce inefficiencies. About 130 enterprises had been identified at the national level. A decision was reached to privatize the large enterprises first in order to build confidence in the programme. Initially, the programme had been opposed by certain minority groups, but currently there was popular support. The steel industry was the first one selected, and aircraft manufacturing and petrochemical industries would be next.

16. Economic and financial appraisals were being made for each enterprise to be privatized. Accounting for the effects of inflation was being performed according to ISAR conclusions. The enterprises were audited, and in addition, a special audit of the privatization process was being carried out to ensure transparency. Minimum guidelines for such work had been established by the Brazilian Institute of Accountants, in cooperation with the Federal Council of Accountants and the Brazilian Security Commission.

17. The expert from Chile pointed out that three programmes had been carried out to date in Chile. The most recent, between 1984 and 1986, was directed towards expanding the capital market in the country and increasing the number of citizens who owned shares in enterprises.

18. A special State agency was organized to carry out the programme. State-owned enterprises, primarily in the service sector, were organized as corporations, as a first step. The enterprises were then privatized, primarily by management/employee buyouts, public-share offerings, trade sales and debt-equity swaps. Pension funds, which had been privatized in 1981, were able to acquire a percentage of shares in order to allow them to maintain a well diversified portfolio. That had contributed to the economic growth and development of the Chilean securities market.

19. An expert expressed the view that one issue for developing countries was the extent to which interests in national enterprises should be sold to foreign investors. The expert from Chile agreed, and stated that the Government was seeking foreign investment as part of the programme. Nevertheless, the Government maintained control over strategic enterprises.

20. The Group next took up the summary report. The expert from India felt that guidance was needed in the following areas: (a) preparatory work required before privatization; (b) how valuations should be performed and what safeguards were necessary so that overvaluations and undervaluations did not occur; (c) post-audits of privatization transactions; and (d) post-evaluations of privatization transactions to determine whether the Government's objectives had been met.

21. The expert from Morocco noted that the case-studies were of countries with well established market economies and countries in transition to a market economy. The problems of other countries, particularly those in Africa, were quite different, because the Government was the only economic agent capable of operating productive enterprises after decolonization. The expert from India suggested that a case-study on the Indian experience would be useful to countries that were involved with privatization.

22. Another expert said that there should be a specialized body in each country to insure that privatizations conformed with the long-range governmental objectives. That body should also classify the risks involved in order to maintain public confidence in the securities market. Future insolvencies could cause serious harm to investors.

C. Preparation for the 1993 session on education and training in developing countries and countries in transition

23. At its 9th and 10th meetings on 11 March 1992, the Group took up consideration of two reports on accountancy development (E/C.10/AC.3/1992/6 and 7). First, it discussed the results of the International Conference on Accountancy Development in Africa, held from 14 to 17 October 1991 in Dakar, Senegal, which was organized by the United Nations Centre on Transnational Corporations and the Federation internationale des experts-comptables francophones (FIDEF). The Conference was also supported by the International Labour Organisation, the World Bank and the International Federation of Accountants (IFAC).

24. The Conference was the first occasion at which so many representatives of the accounting profession - from both developed and developing countries, international organizations, Governments, and other interested parties - were gathered to discuss accountancy development in Africa. The purpose of the Conference was to discuss with interested parties the findings of the survey of accounting needs in Africa, to identify strategies to strengthen accountancy development in Africa, to formulate project proposals and to select projects which could meet the needs of the countries concerned. Fourteen projects were reviewed in three areas:

(a) Accounting standard-setting and research;

(b) Strengthening of the profession;

(c) Accounting education and training.

25. The observer from FIDEF stated that he could not recall another conference which had gathered together so many experts from so many places. Besides broad African representation, there was a large number of international agencies in attendance. Furthermore, the Conference had been an important launching point for a flood of activities. Fourteen projects had been discussed, and it would be a pity if no further action were taken on them. The spirit of the Conference must be maintained and the project proposals should be improved. Therefore, an advisory board should be set up to finalize the proposals and seek funding. A number of experts agreed that it was important not to lose the initiative and that the projects must be followed up on. The representative from the World Bank stated that all the proposals deserved a response, that they all had merit, but that they needed amplification in order to meet donors' requirements. He called for a task force to be mobilized.

26. The expert and Executive Director of the International Federation of Accountants reported that the Education Committee had met and decided to develop a project based on a recommendation made at the International Conference. The Committee felt that it might be able to improve the quality of African education by instituting a process whereby it reviewed the curriculums of African institutes and universities and then issued a statement

that the curriculums complied with its educational guidelines. Such a proposal would have to be approved by IFAC's Governing Council. He said that such an exercise would have to start slowly, so that it would be done correctly. Therefore, only a few African countries would initially be selected for the project.

27. Regarding further work, the Group decided that an ad hoc working group should be created with members from developing countries, developed countries and international organizations. It would take the following actions:

(a) Further analyse and refine the project proposals in light of the findings of the Africa survey, the project assessments made in Dakar and the suggestions for additional ways and means of improving project design and assessment, as described in the report;

(b) Contact country representatives concerning additional questions that might arise and possible project restructuring and redesign;

(c) Organize programming missions. Once possible pilot projects have been identified and a preliminary selection made, missions would be undertaken by one international expert and one national expert. They would identify all appropriate participants, both national and international, and would draw up the final project design and a plan of action, including the responsibilities of all parties;

(d) Organize a consultative meeting (of the proposed ad hoc working group) to which all interested parties would be invited, in order to discuss and evaluate project proposals; "brainstorm" additional ways and means of improving product design and assessment, as described in the report; discuss and agree on a coherent strategy for the further development of national versus regional accounting projects; select pilot projects; and seek funding for them.

28. The Group next turned its attention to a review of accountancy education and training programmes in Central and Eastern Europe (E/C.10/AC.3/1992/7). Since there were no published sources of such information, it had to be gathered organization by organization. The report was a first attempt to centralize and share information so that cooperation and coordination could be improved among international and other donor agencies. The earlier discussions on privatizations had highlighted the need for such training. Programmes that took into consideration local needs and the background and experience of the trainees, which were designed in conjunction with local experts, which incorporated recent national accounting reforms and which were designed to be self-sustaining were more likely to produce an appropriately educated cadre of accountants, managers and educators and thus facilitate the transition to a market economy.

29. The experts from the countries in transition were invited to share their experiences. The expert from the Russian Federation said that present educational efforts in her country were totally insufficient and that

accountants had an inadequate understanding of their new role. Previously accountants had been regarded as State comptrollers. However, now they would have to be creative, to make choices and to take decisions in the enterprises. She reported that before the education programme sponsored by the United Nations Centre on Transnational Corporations had been offered at Moscow State University, the best students were not attracted to accounting. However, the courses and the subsequent job opportunities had changed their attitude towards accounting. She urged that there be greater coordination of such programmes among international donors so that the programmes could be speeded up.

30. The representative of the EC stated that the Community wanted countries to define their needs so that it could then decide upon appropriate action. It was important that the initiative come from the country itself. The EC tried to be objective, to include as many member States as possible and to put all projects out to tender.

31. The expert from Czechoslovakia stated that it was very difficult for foreign instructors to teach accountants in his country what they needed to know. Foreign instructors were not familiar with the Czechoslovak legal system or new accounting law. In some cases, the programmes seemed to help foreign accounting firms more than Czechoslovak accountants. He also noted that when accountants were retrained, they often left government or university service to work in private accounting firms. The Russian experts replied that one had to compare the costs and benefits. It was impossible to avoid all the costs of such a programme. The benefits were great. The costs or losses could be borne as long as the general level of accountancy increased.

Annex

LETTER FROM THE CHAIRMAN OF THE INTERGOVERNMENTAL WORKING GROUP ON ITS TENTH SESSION TO THE SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT

12 March 1992

Dear Mr. Strong,

As Chairman of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), at its tenth session, I was assigned the duty to transmit to you, on behalf of the Group, its conclusions on corporate environmental accounting and reporting. The Group, which reports to the Economic and Social Council, is currently composed of 31 member countries, of which 19 are developing countries. The experts who represent their Governments are regulators, auditor-generals, or practising accountants. For the past three years the Group has undertaken an extensive analysis of corporate accounting and reporting relating to environment disclosures.

In its latest study of 222 transnational corporations (which is enclosed) the Group found a high awareness of environmental issues. Of the transnational corporations surveyed, 89 per cent provided some information regarding their environmental impacts. However, despite the high awareness, much of this information is qualitative or descriptive, and there is no consistent pattern of disclosure. One of the main problems is that the environmental results achieved are not related to expenditures or to environmental targets.

The Group requests that its conclusions be considered for inclusion in Agenda 21 so that they may be brought to the attention of Governments and other interested parties. In particular, the Group believes that its work is relevant to chapter 7 of said Agenda 21: Integration of Environment and Development in Decision-making. Since chapter 7 deals with national income accounting, special subtopics on corporate environmental accounting should be considered for inclusion. The Group is prepared to furnish you with its reports on the subject. The Group believes that technical assistance might be necessary to assist national standard-setters to implement guidelines in the area.

The Group is of the opinion that these conclusions, if followed, would produce consistent and comparable information in the financial statements. Disclosure of such information is likely to have a positive impact on corporate environmental policies and programmes. Experience has shown, for example, that the publication of toxic emission data has had a more powerful effect on reducing pollution than 20 years of regulation.

I set out the Group's conclusions on the following pages.

Thank you in advance for your attention and cooperation. I would appreciate your response to the Group's initiative so that I may communicate it to the Commission on Transnational Corporations and the members of the Group.

Sincerely yours,

Dr. Istvan Friedrich
Chairman
Tenth session of the
Intergovernmental Working Group
of Experts on International
Standards of Accounting and Reporting

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PROVISIONAL AGENDA FOR THE ELEVENTH SESSION OF THE GROUP

Draft decision submitted by the Rapporteur

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its tenth session and provisional agenda and documentation for the eleventh and twelfth sessions of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its tenth session;

(b) To approve the provisional agenda and documentation for the eleventh and twelfth sessions of the Group as set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE ELEVENTH AND TWELFTH SESSIONS OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Eleventh session

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

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3. Discussion of accounting education and the strengthening of the profession, including:

   (a) Comparative study on curriculums for fully qualified accountants in Africa, Asia, Europe, Latin America and North America;

   (b) Review of training programmes in Africa and Central and Eastern Europe;

   (c) International and regional reports.

4. Provisional agenda for the twelfth session of the Group.

5. Adoption of the report of the Group on its eleventh session.

Twelfth session

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations.

   (a) Review of current accounting and reporting problems arising during privatization and their solutions;

   (b) Environmental disclosures: international survey of corporate reporting practices;

   (c) Accounting for government grants;

   (d) Accounting for leases;

   (e) Accounting for business combinations;

   (f) Identification of issues of accounting and reporting for discussion on a priority basis during future sessions.

4. Provisional agenda for the thirteenth session of the Group.

5. Adoption of the report of the Group on its twelfth session.